



THE STEEL COMPANY OF CANADA, LIMITED



**ANNUAL
REPORT**

1966

FIFTY - SEVENTH ANNUAL REPORT (for the year ended December 31, 1966)

ANNUAL MEETING

The Annual Meeting of the Shareholders of the Company will be held at the Head Office of the Company, in Hamilton, at 11:00 a.m., Eastern standard time, on Monday, April 17, 1967.

TRANSFER AGENT

MONTREAL TRUST
COMPANY
Toronto, Montreal, Halifax,
Winnipeg, Edmonton,
Vancouver

REGISTRAR

THE ROYAL TRUST
COMPANY
Toronto, Montreal, Halifax,
Winnipeg, Edmonton,
Vancouver

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MAR 11 1967

THE STEEL COMPANY OF CANADA, LIMITED - HAMILTON, ONTARIO**THE YEAR IN BRIEF** (with comparative figures for the year 1965)**1966****1965**

Sales	\$504,762,987	\$516,405,960
Net profit	\$ 42,743,910	\$ 43,453,870
Per cent of sales	8.5%	8.4%
Per share	\$1.77	\$1.80
Dividends and extra distribution declared	\$ 20,518,194	\$ 20,517,897
Per share	\$.85	\$.85
Taxes — income and all other	\$ 47,077,929	\$ 52,062,854
Per share	\$1.95	\$2.16
New investment — plants and mining properties	\$ 99,542,042	\$ 75,539,847
Depreciation	\$ 29,499,952	\$ 27,593,809
Materials and services bought and used	\$243,064,000	\$256,842,000
Total employment costs	\$151,708,467	\$143,178,741
Working capital, year end	\$138,560,322	\$180,355,032
Raw steel produced — net tons	3,793,845	3,846,214
Average number of employees	20,360	20,262
Number of shareholders, year end	53,017	46,597

THE STEEL COMPANY OF CANADA, LIMITED

DIRECTORS

*W. Herman Browne, Toronto

J. D. Campbell, Hamilton

Harold S. Foley, Vancouver

J. Roy Gordon, New York

*Allan Graydon, Q.C., Toronto

*H. M. Griffith, Hamilton

G. Arnold Hart, M.B.E., Montreal

*Frederick Johnson, Montreal

*R. A. Laidlaw, Toronto

D. R. McMaster, Q.C., Montreal

Lucien G. Rolland, Montreal

*V. W. Scully, C.M.G., Hamilton

H. Greville Smith, C.B.E., Montreal

*Member of the Executive Committee

President, Moore Corporation, Limited

President, Canadian Westinghouse Company Limited

Industrialist

*Chairman of the Executive Committee,
The International Nickel Company of Canada, Limited*

Messrs. Blake, Cassels & Graydon

President

Chairman and President, Bank of Montreal

Industrialist

Industrialist

Messrs. McMaster, Meighen, Minnion, Patch & Cordeau

President and General Manager, Rolland Paper Company, Limited

Chairman of the Board and Chief Executive Officer

Industrialist

EXECUTIVE OFFICERS

V. W. Scully

H. M. Griffith

H. J. Clawson

N. J. Brown

R. B. Taylor

A. D. Fisher

J. P. Gordon

A. R. McMurrich

J. W. Younger

Chairman of the Board and Chief Executive Officer

President

Vice-President, Personnel

Vice-President and Comptroller

Vice-President and Treasurer

Vice-President, Planning, Engineering and Research

Vice-President, Operating

Vice-President, Marketing

Secretary

VICE-PRESIDENTS

Eastern Region - J. D. Allan

Manufacturing - A. J. Harris, S. W. McDermott

Sales - K. B. MacNaughton

DIRECTORS' REPORT

TO THE SHAREHOLDERS OF THE STEEL COMPANY OF CANADA, LIMITED: The Board of Directors submits herewith the Annual Report of your Company and its subsidiaries, together with the consolidated balance sheet and related financial statements for the year ended December 31, 1966, and the report of your auditors.

A strong economy and advance buying by customers anticipating a work stoppage arising from labour negotiations kept Canadian steel demand at a high level through the first six months of 1966. In this period, your Company made and sold a record tonnage of steel products and, with the benefits obtained from new equipment and an increasing supply of iron ore pellets from The Scully Mine, net profit approached more satisfactory levels having regard to the Company's mounting capital investment.

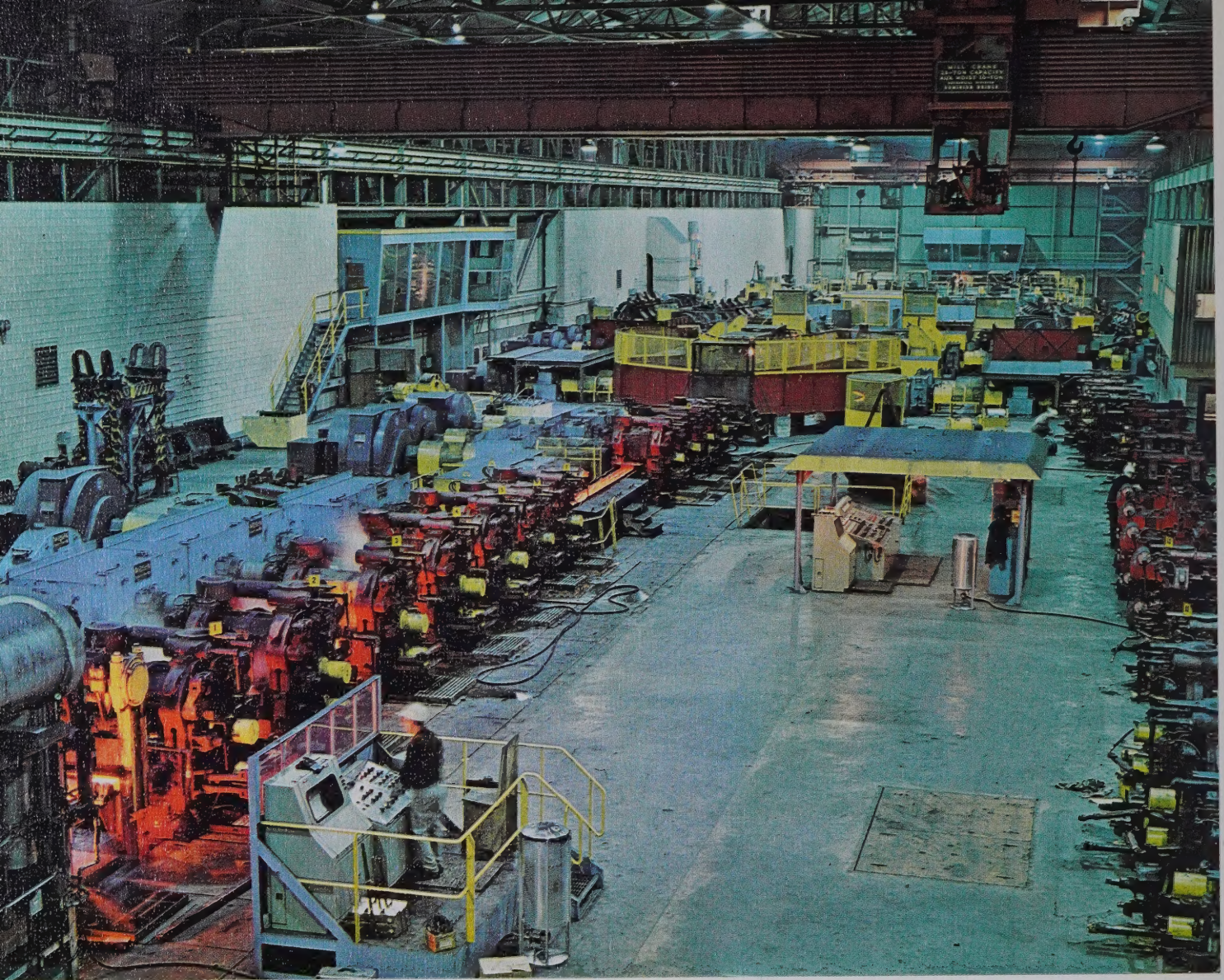
As the year progressed, a number of developments combined to diminish sales and earnings. In August, an unauthorized strike at Hilton Works closed down operations for several days, causing a loss of production and sales. The negotiations for renewal of the labour agreement resulted in a settlement which raised production costs and reduced profit margins. Adjustments in selling prices to recover part of the added costs were announced in September but, at the request of the Minister of Finance, were immediately suspended. Finally, a sharp decline in incoming business led to a lower

rate of operations and, by the end of the year, more than offset the improvements in sales and earnings recorded in the first six months.

SALES, OUTPUT AND PROFIT

Consolidated net sales were \$504,762,987, a decrease of 2.3% from the record sales of \$516,405,960 in 1965. While new high levels in sales were attained in the first and second quarters, the subsequent decline ended a long sequence of sales records for each quarter of the year. To make up as much as possible for reduced domestic volume, which occurred primarily in flat rolled products, special efforts were made to increase exports, with the result that sales abroad were the highest on record.

Output of raw steel, consisting of steel ingots and continuous cast billets, reached 3,793,845 tons, compared with the record production of 3,846,214 tons in 1965. Although some major departments operated below capacity in the later months, many departments bettered their production records of the previous year.



A general view of the new rod mill in Hamilton, showing the roughing and intermediate rolling stands.



The main rod mill control pulpit. The control system was developed by Stelco engineers.



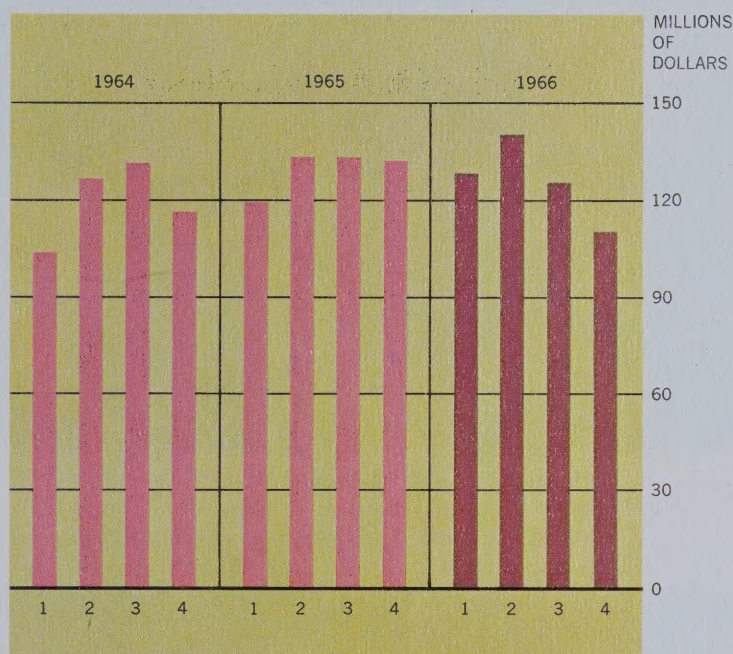
Three billets entering simultaneously the roughing stand of the new mill.

Net profit amounted to \$42,743,910, equal to \$1.77 a share. This was slightly lower than the profit, \$43,453,870 or \$1.80 a share, earned in the previous year. Aside from lower sales volume and higher wage costs, net profit in 1966 was affected unfavourably and favourably by other factors. Income was reduced by extra costs arising from strikes, abnormal expenses related to the construction and breaking in of new facilities, and increased charges for depreciation and for interest on funded debt. On the other hand, earnings were increased by the inclusion of income from The Scully Mine which reduced the effective rate of income tax, since income from this source qualifies for tax exemption for a period of thirty-six months from April 1, 1966.

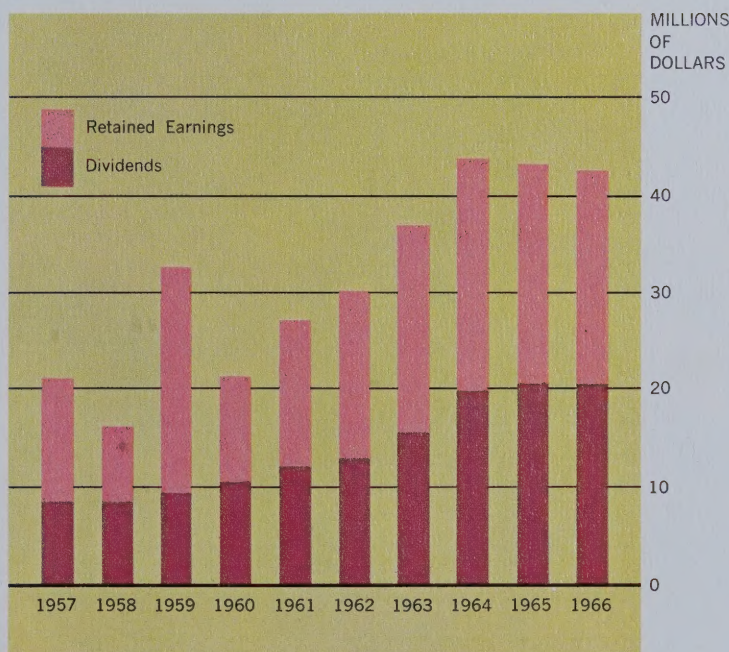
PRICES

Stelco's record of stable prices during a period when wages and other costs have been continually rising has been achieved primarily through the greater volume of production and improvements in efficiency obtained from large expenditures for new plant and equipment. Earnings, however, have not kept pace with the growth in invested capital. Furthermore, the substantial increase in costs resulting from the labour agreements negotiated in 1966, coupled with rising costs for equipment, materials and services, has gone beyond the range of savings that might realistically be expected in the next few years from further advances in productivity and efficiency.

It was in recognition of this situation, and also of the fact that further increases in employment costs will have to be met in 1967 and 1968 under the terms of the new labour contracts, that the Company decided in September that adjustments in prices were necessary and fully justified. Although price increases announced at that time were suspended at the request of the Minister of Finance, it was stated that the relationship between costs and prices would be kept under constant review. Accordingly, after the year end, action was taken to adjust the prices of several major products. These adjustments included price decreases as well as increases which, in all, represented an average increase of less than 3% in the selling prices of the products affected.



CONSOLIDATED NET SALES BY QUARTERS



NET PROFITS AND DIVIDENDS, 1957-1966



Coal screening and crushing station, storage silo, and cleaning plant under construction at the Chisholm Mine in Kentucky.

Erection of the main concentrating and pelletizing plant for the Griffith Mine in progress near the shores of Bruce Lake in northwestern Ontario.



DIVIDENDS

Four quarterly dividends of 20 cents a share were declared for the year and an extra distribution of 5 cents a share was declared in December, bringing the total distribution to 85 cents a share, the same as in 1965.

The total amount of the dividends and extra distribution declared was \$20,518,194, compared with \$20,517,897 in 1965. The difference was due to the fact that, for a period in 1965, a number of the shares outstanding were represented by fractional certificates which did not carry dividend rights.

FINANCIAL

Capital expenditures for plants and mining properties rose to \$99,542,042 from \$75,539,847 in 1965 and were the second highest in the Company's history, being exceeded only in 1964. Current expansion programs are estimated to require outlays totalling \$112,000,000, mostly in 1967. To finance these programs, arrangements have been made to obtain bank loans as required to supplement the Company's own funds.

Working capital declined from \$180,355,032 at the end of 1965 to \$138,560,322 at December 31, 1966. As indicated in the Statement of Source and Use of Funds on page 19, the decrease represents the amount by which the total of capital expenditures, reduction of long-term debt, special refundable tax and dividends, exceeded total funds from operations. At December 31, 1966, current assets were 2.7 times current liabilities.

Provision has been made in current liabilities for the redemption of the remaining \$14,411,000 of 2 $\frac{3}{4}$ % and 3 $\frac{3}{8}$ % sinking fund debentures which are due for repayment on May 1, 1967. These debentures were originally issued in 1947 and 1951 in the amounts of \$20,000,000 and \$15,000,000 respectively.

Investments, at cost, in associated companies not consolidated, amounted to \$20,002,709 at December 31, 1966, compared with \$19,011,896 at December 31, 1965. Included in the increase is a nominal investment in New Zealand Steel Limited, a company formed to establish the first integrated steel mill in New Zealand. The operation will be based

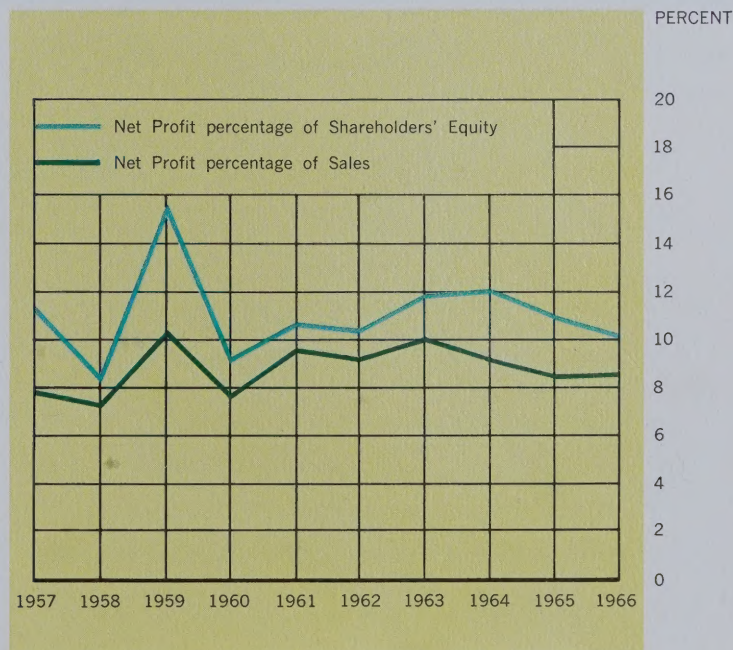
on native iron ore to be processed in a Stelco-Lurgi direct reduction unit. Stelco is providing the new company with technical and administrative assistance.

PLANTS

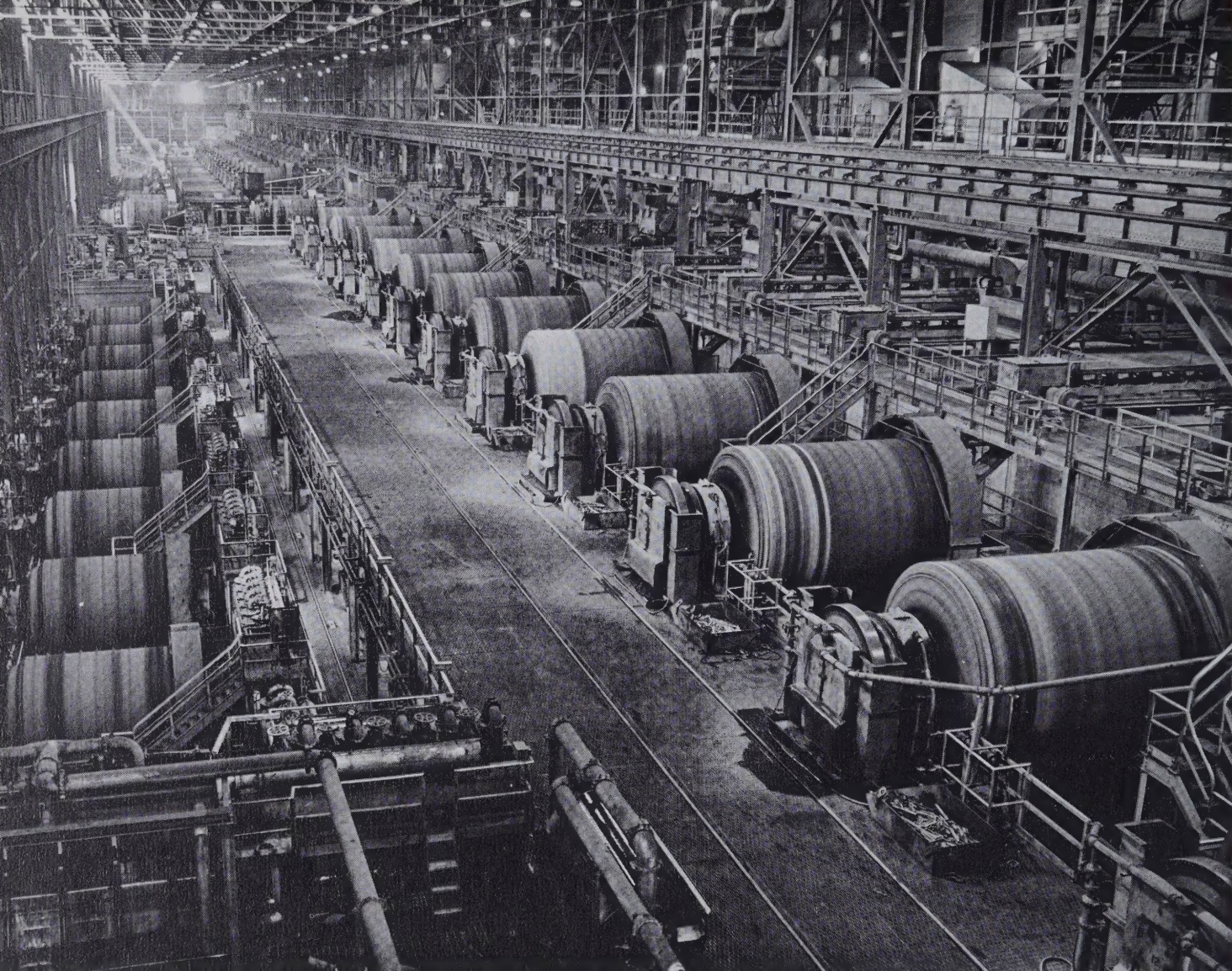
During the year important new production units, employing some of the latest technological innovations in the industry, were completed and progress was effectively maintained on other expansion projects, all of which will enhance the Company's future competitive position.

Hilton Works

- Improvements were made in No. 3 open hearth shop to handle a higher rate of steel output and, in No. 2 shop, an open hearth furnace was modified to facilitate the operation of the six-strand continuous billet casting machine which was in production before the end of the year. The new machine adds 350,000 tons to annual billet-making capacity.



RETURN ON SALES AND SHAREHOLDERS' EQUITY, 1957-1966



Grinding mills in operation in the expanded concentrating plant of Erie Mining Company in Minnesota. These mills pulverize iron-bearing taconite to the consistency of fine powder prior to magnetic separation.

- A new soaking pit and ancillary equipment were added in the slabbing mill to increase the output of steel slabs for rolling into plates and sheets.
- No. 2 rod mill was brought into operation in the third quarter. Equipped with the patented "Stelmor" process, a Stelco development for cooling rods, this modern mill will be capable of producing 650,000 tons a year of high quality rods and bars. The use of "Stelmor" rods will result in important cost savings in the Company's wire drawing operations.
- Shipping and handling services were expanded in the 148" plate mill to accommodate surges in demand for the products of this mill.

Major expansion projects under way at Hilton Works include a fifth blast furnace, a new battery of coke ovens with auxiliary apparatus for the re-

covery of by-products, and a third continuous galvanizing line. Maintenance and service facilities are being enlarged to keep pace with the expansion in manufacturing operations. All of these units are expected to be completed and in operation in 1967.

Fabricating Plants and Subsidiaries

At McMaster Works, the final section of the new bar mill, transferred from Notre Dame Works, was brought into operation in May. The combined equipment provides added rolling capacity in the Montreal area for a greater range of bar products.

A new heat treatment line for bolt products installed at Swansea Works, and new screw making machines at Canada Works, broadened product range as well as capacity for the manufacture of fasteners. The plant of Canadian Drawn Steel was again extended to meet the demand for cold drawn bars, and at Premier Works the first of three

stages in the renovation and expansion of the steel making and rolling operations was completed.

Further additions and improvements being undertaken include a second electro-galvanizing line for wire at Dominion Works; new equipment for the production of forgings at Gananoque Works; expansion of wire drawing, wire galvanizing and nail making operations at Canada and Parkdale Works; improved fence shipping facilities at Frost Works, and a new billet reheating furnace and scrap shear at Premier Works.

Baycoat Limited

Baycoat Limited, 50% of which is owned by Stelco, officially opened its new continuous coating plant in Hamilton in June, 1966. After the initial breaking-in period, production of prepainted steel coils has increased steadily and the product is being well received by the trade. This material is marketed by Stelco under the trademark "Stelcolour" in a wide range of gauges, colours and finishes for use in buildings, appliances and many other applications.

MINING

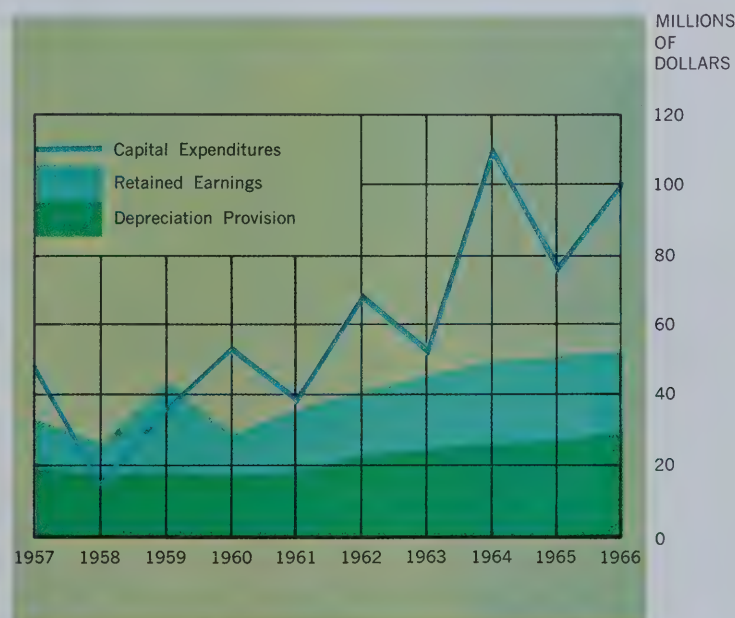
In 1966, large sums were invested in development and construction at the Company's mining properties in accordance with a program designed to assure adequate and economic sources of raw materials for a growing volume of steel production in future years.

The Scully Mine at Wabush Lake in Labrador, and the Arnaud Pellets plant at Pointe Noire, Quebec, are being consolidated and the ownership interests adjusted. Your Company's interest in the combined project is being increased from slightly below 25% to 25.6%, bringing its total investment to \$73,000,000. At the same time, the concentrating and pelletizing facilities are being expanded so that their capacity for the production of iron ore pellets will be 6,000,000 tons a year.

Expansion at the properties of Erie Mining Company in Minnesota is proceeding on schedule. When this work is completed in 1967, Erie's annual capa-

city for the production of iron ore pellets will be raised from 7,500,000 to 10,300,000 tons (Stelco interest — 10%). Satisfactory progress is being made in the development of the wholly owned Griffith Mine at Bruce Lake, Ontario. This project, with an annual capacity of 1,500,000 tons of iron ore pellets, is scheduled to be in operation early in 1968. The Chisholm coal mine in Kentucky will begin coal shipments with the opening of lake navigation in 1967.

For the most part, the producing mines achieved a good rate of output despite a number of problems. However, at The Scully Mine, the concentrator was severely damaged by a fire in February. The losses from the fire were fully covered by insurance and, by expediting repairs and purchasing concentrates from outside sources, the loss of pellet production was kept to a minimum. Nevertheless, as a result of the fire and other operating problems, including interruptions in rail transportation, the total output of pellets for 1966 was somewhat below the tonnage originally planned.

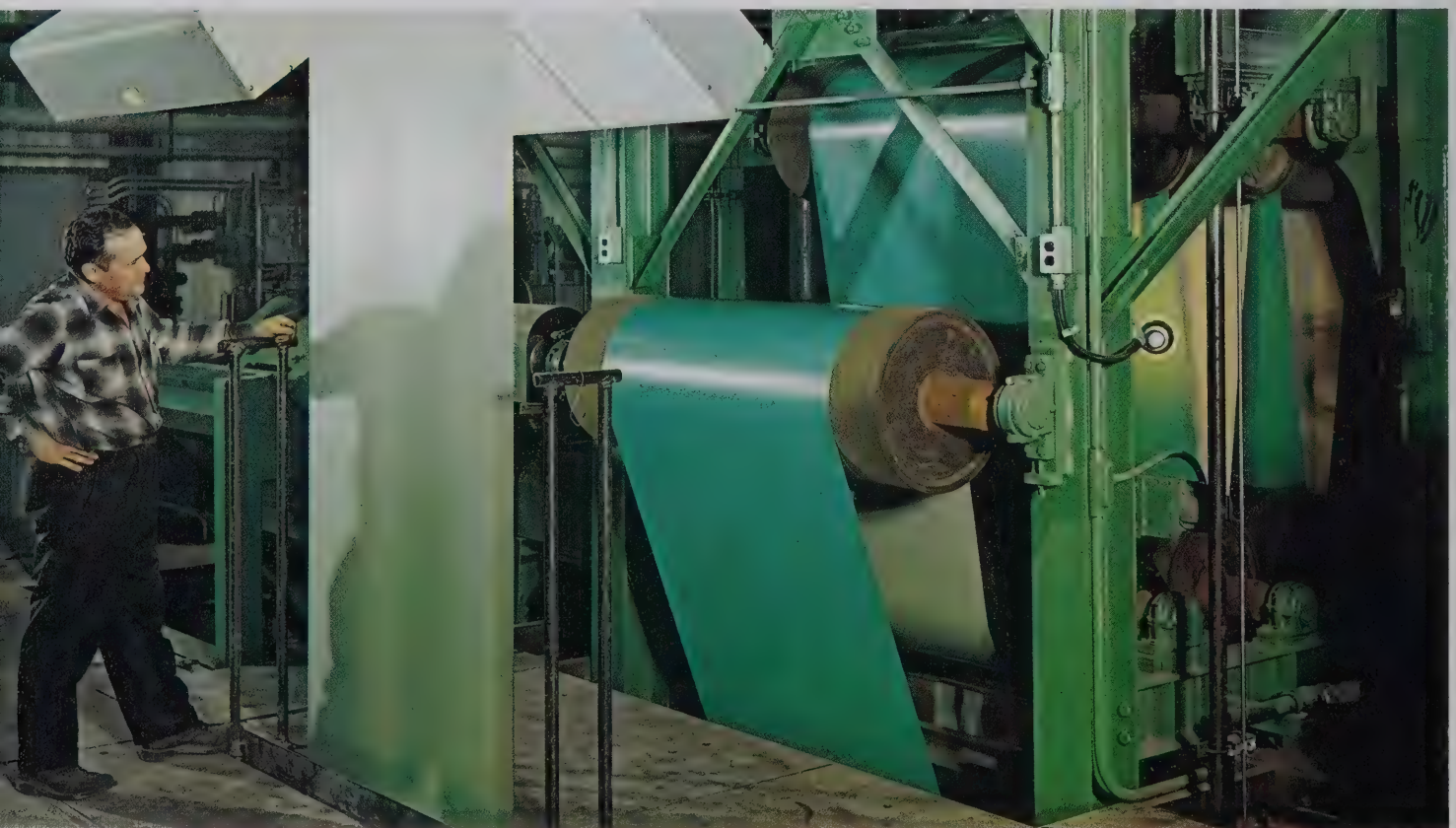


CAPITAL EXPENDITURES, DEPRECIATION AND RETAINED EARNINGS, 1957-1966



Mechanized bar cooling and shearing equipment added in 1966 in the rolling mill at Premier Works.

Examining prepainted steel sheet after cleaning, painting and baking at the plant of Baycoat Limited.



There was considerable labour unrest at several properties. The Mathies and Olga coal mines, along with other coal mines in the United States, were closed by strike action for three weeks before a new labour contract was negotiated with the United Mineworkers of America. A strike at the Hilton iron ore mine in Quebec closed down operations for five weeks during negotiations for a new contract with the United Steelworkers of America. New labour contracts have also been negotiated at The Scully Mine, the Arnaud Pellets plant, the Griffith Mine and the limestone quarry at Ingersoll, Ontario. These contracts resulted in substantial wage increases that will add to production costs.

MARKETING

With increasing competition, Stelco's marketing policies and practices are taking on added significance and two important marketing services were strengthened in 1966: sales engineering, which provides assistance to architects, designers and builders in the use of steel for structures; and a metallurgical service to help customers with product design and fabricating problems. Efforts to develop and promote new products and new uses for steel were intensified. These activities, aimed at the expansion of profitable outlets for steel, also afford a measure of stability in market demand by helping to maintain a well-diversified range of products. Examples of recent successful product innovations are hollow structural sections for construction, prepainted steel sheets and a novel type of barbed wire.

Stelco's selling and marketing efforts are supported by comprehensive advertising programs which not only promote Stelco products, but are also designed to encourage the use of steel generally. By this means the advantages of steel are brought to the attention of those people who, while not normally reached by the Company's representatives, are nevertheless in a position to influence the application of steel for many purposes. The marketing program also includes advertising in support of consumer markets, an example being the

highly successful campaign to promote the sale of soft drinks in cans. Also, through membership in trade associations representing the steel industry and steel fabricators, the Company participates in joint promotional campaigns aimed at expanding the use of steel in an ever-widening range of products and services.

With the object of extending its participation in markets overseas, the Company has established two wholly owned subsidiaries — Stelco Nederland N.V. in Holland and Stelco S.A. in Switzerland. These companies are being organized to promote and act as distributors for the sale of Stelco products in Europe.

EMPLOYEES

Despite serious difficulties encountered during negotiations, new labour agreements were signed in 1966 at most plants of the Company.

The principal negotiations were with the United Steelworkers of America. In August, discussions with this union for renewals of agreements covering employees at Hilton Works were progressing satisfactorily when an unlawful and unauthorized strike, lasting five days, occurred at the Hamilton plants. The negotiations, after being suspended during the work stoppage, were eventually concluded with the assistance of a Conciliation Board and resulted, in September, in agreements for a period of three years ending July 31, 1969, for employees at Hilton Works and the Company's fabricating plants.

The new agreements will increase employment costs by an aggregate of 71¢ an hour in the third year. They provide for direct wage increases, consisting of increases in the base rate and in the increment between job classes, which will cost over 48¢ an hour. Certain trade classifications have also been adjusted, and a Supplemental Unemployment Fund, based on Company contributions of 1¢ an hour worked, will be established on January 1, 1968.

The pension agreements were also re-negotiated for a three-year term with improved benefits in

This large hydrochloric acid regeneration plant, completed in 1966, recovers the acid and purifies the water from the new pickling line at Hilton Works.



basic, supplementary and survivor pensions and in eligibility and vesting.

Early in the year, after lengthy negotiations, the United Electrical, Radio and Machine Workers of America representing employees at the pipe plants in Welland, called a strike which lasted seven weeks. Following settlement of the dispute, an agreement for a term of one year was concluded. Negotiations for a renewal of this agreement and the agreements covering employees at the Canadian Drawn Steel and Premier Steel plants were in progress at the close of the year. An agreement with the Ontario Bricklayers and Masons Union representing brick-masons at Hilton Works was signed on January 23, 1967.

Salary rates were adjusted upward during the year and improvements were made to the Benefit Plan for Salaried Employees and to the Contributory Retirement Plan in keeping with prevailing practices in comparable companies. Further improvements to the Contributory Retirement Plan have been approved and will go into effect March 1, 1967.

Provisions for payments to the pension trust funds during the year amounted to \$3,412,854, bringing the total of such provisions since the introduction of the first plan in 1920 to \$37,689,218. At the end of the year, 1,606 former employees were receiving pensions under these plans.

Increasing emphasis on training, development and proper placement of people, and on organization planning, is being promoted at all levels of management.

The Employees Suggestion Plan continued to operate successfully during the year. Since the Plan was first established in 1959, there have been 26,000 suggestions from hourly-rated employees proposing cost reductions and method improvements. A total of \$296,000 has been paid out in awards, including several maximum awards of \$5,000.

Total employment costs in 1966, summarized opposite, amounted to \$151,708,467 and were 6.0% higher than in the previous year.



The Company's hospital and medical facilities at Hilton Works were expanded in 1966. Pictured above is the newly-enlarged medical laboratory for biochemical testing.

WAGES AND SALARIES

For time worked	\$129,898,868
For vacation and statutory holidays not worked	9,028,231
	<u>\$138,927,099</u>

SUPPLEMENTARY

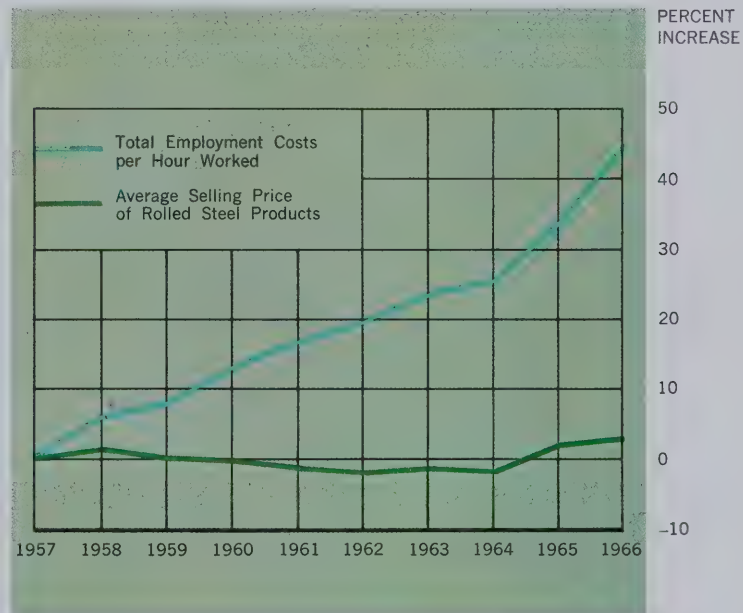
EMPLOYEE BENEFITS

Pension fund provisions, retiring allowances and group insurance plans	\$ 10,521,254
Unemployment insurance and workmen's compensation	2,260,114
	<u>\$ 12,781,368</u>

TOTAL EMPLOYMENT COSTS	<u>\$151,708,467</u>
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AVERAGE NUMBER OF EMPLOYEES	20,360
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AVERAGE PER EMPLOYEE	\$7,451
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EMPLOYMENT COSTS AND SELLING PRICES
PERCENTAGE INCREASES, 1957-1966



This aerial photograph shows the steel industry pavilion at Expo 67 in Montreal, nearing completion.

STOCK OPTION POLICY

The Stock Option Policy established in 1965 provided that options might be exercised to the extent of 25% in each of the second, third and fourth years after the date of grant, and thereafter in whole or in part until the end of the tenth year of the option. In 1966, this Policy was amended to provide that options may be exercised at any time after the first year up to the end of the tenth year after the date of grant. On December 12, 1966, options were granted to officers and other salaried employees to purchase 8,500 common shares at \$19.75 per share, the closing bid price on The Toronto Stock Exchange on the last day preceding the date the options were granted.

POLLUTION ABATEMENT

In 1966, an electrostatic precipitator was installed on the open hearth furnace converted to the use of oxygen for making steel for the new continuous billet casting machine. This is the seventh such installation at Hilton Works since 1962. These precipitators, which have cost over \$7,000,000, have proven more than 99% effective in preventing air

pollution from the open hearth furnaces now using oxygen. The hydrochloric acid regeneration plant, also brought into use in 1966, is the latest among a number of installations made in recent years to ensure that the great bulk of the 220 million gallons of water used daily at Hilton Works is returned to Hamilton Bay in its original condition, apart from a slight increase in temperature.

Altogether, approximately \$14,000,000 has been spent over the last five years on facilities to prevent air and water pollution, and further measures are planned. No financial benefit is obtained from these expenditures, but, along with the Company's active participation in industrial and community efforts to overcome pollution problems, they demonstrate Stelco's interest in helping to abate the contamination of air and water resources.

EXPO 67

Construction of the steel industry pavilion, which is being provided by the four leading Canadian steel manufacturing companies for Expo 67 in Montreal, progressed satisfactorily. The building was erected

and closed in before the end of the year and work has since continued with the completion of the interior, including the assembly of working models and exhibits, and the furnishing of a 350-seat auditorium. A realistic presentation of steelmaking and a novel exhibit of steel products, together with a cartoon and feature film to provide entertainment and at the same time illustrate the significance of steel in Canadian life, should prove attractive to people of all ages.

The pavilion will form a fitting part of the magnificent exhibition that will be the highlight of Canada's centennial year.

SHAREHOLDERS

The number of Stelco shareholders at December 31, 1966, was 53,017, compared with 46,597 at the end of 1965, an increase of 13.8%. Residents of Canada held approximately 94% of the 24,139,052 shares outstanding, and the average individual holding was 455 shares.

ORGANIZATION

Following the Annual Meeting in April 1966, your Directors made the following new appointments: Chairman of the Board and Chief Executive Officer, Mr. V. W. Scully; President, Mr. H. M. Griffith; Vice-President, Planning, Engineering and Research, Mr. A. D. Fisher; Vice-President, Operating, Mr. J. P. Gordon; Assistant Secretary, Mr. R. F. Booth. Mr. S. W. McDermott was named Vice-President, Manufacturing.

At a Board Meeting on February 13, 1967, Mr. A. R. McMurrich was appointed Vice-President, Marketing, succeeding the late Mr. L. T. Craig.

DIRECTORS

With deep regret your Directors record the deaths on November 18, 1966, of Mr. Hugh G. Hilton after 47 years of service with the Company and on December 10, 1966, of Mr. Lee T. Craig after 46 years' service. Mr. Hilton served as a Director of the Company since 1941, as President from 1945 to 1957, as Chairman from 1957 to 1960, as Chairman

of the Board from 1960 to April 18, 1966, and as Chairman of the Executive Committee from that date until his death. Mr. Craig was appointed a Vice-President of the Company in 1950 and became a Director in 1960 and served as an Executive Vice-President from 1964 until his death. The great talents, leadership and devotion to the Company's affairs of both Mr. Hilton and Mr. Craig have made an outstanding contribution to its growth and success. Their broad experience and mature judgment will be greatly missed by those who were privileged to work with them.

The vacancies on the Board were filled by the election on February 13, 1967, of Mr. Alistair M. Campbell, President, Sun Life Assurance Company of Canada, and Mr. William H. Young, President, The Hamilton Cotton Company Limited.

Mr. W. Herman Browne has been elected to the Executive Committee of the Board, replacing Mr. Hilton.

★ ★ ★

Your Directors wish to express their appreciation of the efforts put forth on behalf of the Company by its officers and employees. This year, a special acknowledgement must be made of the splendid response by the management and supervisory staffs to the emergency situation created by the "wild-cat" stoppage of operations at Hilton Works and other Hamilton plants. Their prompt action prevented serious damage to millions of dollars worth of equipment and kept to a minimum, for the benefit of all concerned, the financial consequences of the ill-advised strike.

Appreciation must also be expressed to the Company's shareholders, customers, and suppliers for their continued support throughout the year, despite some trying periods.

Submitted on behalf of the Board of Directors.

V. W. SCULLY,
Chairman of the Board
H. M. GRIFFITH,
President

Hamilton, Canada
February 13, 1967.

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

for the year ended December 31, 1966 (with comparative figures for the year 1965)

	1966	1965
REVENUE		
Net sales	\$504,762,987	\$516,405,960
Income from marketable securities	2,462,170	1,416,334
	<u>\$507,225,157</u>	<u>\$517,822,294</u>
EXPENSE		
Cost of sales, exclusive of the following items	\$398,165,780	\$404,978,217
Provision for depreciation (Note 5)	29,499,952	27,593,809
Interest on long-term debt	3,764,448	2,988,835
Provision for income taxes — current (Note 10)	5,977,067	3,854,563
— deferred	27,074,000	34,953,000
	<u>\$464,481,247</u>	<u>\$474,368,424</u>
NET PROFIT FOR THE YEAR	\$ 42,743,910	\$ 43,453,870
(Per share: 1966 — \$1.77, 1965 — \$1.80)		
RETAINED EARNINGS at beginning of year	282,403,789	260,478,996
	<u>\$325,147,699</u>	<u>\$303,932,866</u>
Deduct		
Discount and expense related to the issue and redemption of long-term debt	—	\$ 1,011,180
Dividends declared — 80 cents per share	\$ 19,311,242	19,310,945
Extra distribution — 5 cents per share	1,206,952	1,206,952
	<u>\$ 20,518,194</u>	<u>\$ 21,529,077</u>
RETAINED EARNINGS at end of year	<u>\$304,629,505</u>	<u>\$282,403,789</u>

CONSOLIDATED BALANCE SHEET December 31, 1966

(with comparative figures at December 31, 1965)

	1966	1965
ASSETS		
CURRENT ASSETS		
Cash	\$ 9,601,319	\$ 7,576,205
Marketable securities, at cost (approximates quoted market value) . . .	25,968,006	37,939,107
Accounts receivable	69,341,211	74,766,499
Inventories, at the lower of cost or market (Note 6)	114,176,797	121,112,044
Prepaid expenses	1,458,674	1,075,151
	<u>\$220,546,007</u>	<u>\$242,469,006</u>
SPECIAL REFUNDABLE TAX	\$ 3,327,524	—
INVESTMENTS IN ASSOCIATED COMPANIES, at cost (Note 7)	\$ 20,002,709	\$ 19,011,896
FIXED ASSETS		
Plants and properties, at cost	\$846,692,975	\$750,803,179
Less: Accumulated depreciation	382,380,139	354,512,432
	<u>\$464,312,836</u>	<u>\$396,290,747</u>
TOTAL ASSETS	<u>\$708,189,076</u>	<u>\$657,771,649</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued	\$ 58,135,910	\$ 53,285,031
Provision for income and other taxes	3,404,012	2,794,180
Dividend and extra distribution payable	6,034,763	6,034,763
Current portion of long-term debt	14,411,000	—
	<u>\$ 81,985,685</u>	<u>\$ 62,113,974</u>
LONG-TERM DEBT (Note 2)	59,726,000	78,480,000
PROVISION FOR DEFERRED INCOME TAXES	133,749,000	106,675,000
TOTAL LIABILITIES	<u>\$275,460,685</u>	<u>\$247,268,974</u>
SHAREHOLDERS' EQUITY		
COMMON SHARES — no par value (Note 9)		
Authorized — 28,000,000 shares		
Issued — 24,139,052 shares	\$128,098,886	\$128,098,886
RETAINED EARNINGS — in use in the business	304,629,505	282,403,789
TOTAL SHAREHOLDERS' EQUITY	<u>\$432,728,391</u>	<u>\$410,502,675</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$708,189,076</u>	<u>\$657,771,649</u>

Approved on behalf of the Board: V. W. SCULLY, Director H. M. GRIFFITH, Director

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 1966

1. It is estimated that \$112,000,000 will be required to complete approved capital programs.

2. Long-term debt (less current portion) consists of the following:

	1966	1965
The Steel Company of Canada, Limited		
2¾% Sinking fund debentures due May 1, 1967	—	\$ 9,659,000
3¾% Sinking fund debentures due May 1, 1967	—	8,100,000
5½% Sinking fund debentures due May 1, 1990 (Annual sinking fund requirement \$1,250,000 commencing May 1, 1970)	\$50,000,000	50,000,000
Page-Hersey Tubes, Limited		
4¼% Sinking fund debentures due April 1, 1971 (Annual sinking fund requirement \$400,000, fulfilled to April 1, 1967)	2,564,000	2,731,000
5½% Sinking fund debentures due April 1, 1983 (Annual sinking fund requirement \$350,000 — 1967 through 1974; \$400,000 — 1975 through 1982; fulfilled to April 1, 1968)	7,162,000	7,990,000
	<u>\$59,726,000</u>	<u>\$78,480,000</u>

3. The Company, as a shareholder of Erie Mining Company, is entitled to 10% of Erie's production of iron ore pellets, for which it is committed to pay 10% of Erie's costs, including a minimum annual charge for depreciation, not exceeding \$2,100,000, to cover the repayment of 10% of Erie's long-term debt.

4. Accounts originating in foreign currencies have been converted generally at current rates of exchange except for plant and property values which have been converted at rates in effect at the date of acquisition.

5. Depreciation has been provided on a straight-line basis, at rates averaging approximately 5% of the cost of depreciable assets.

6. In determining the cost of the major portion of its inventories, the Company follows the last-in, first-out method, the balance being determined at average cost.

7. The cost of investments in associated companies amounted to \$20,002,709 at December 31, 1966, at which date the net equity value of the investments, as recorded in the accounts of the associated companies, was \$23,621,432.

8. Pension costs charged against income in the year include payments made to trust funds in respect of past service and amounts paid or payable in respect of current service. Past service costs are being funded over periods not exceeding 25 years. The total unfunded past service liability at December 31, 1966, is estimated at approximately \$48,000,000.

9. In accordance with a Stock Option Policy adopted in 1965, 280,000 shares of the capital stock of the Company are reserved for stock options. At December 31, 1966, options were outstanding in respect of 145,600 shares as follows: 137,100 shares at \$25.50 exercisable to December 13, 1975, and 8,500 shares at \$19.75 exercisable from December 13, 1967 to December 12, 1976. Included in the above are 64,900 shares under option to officers.

10. Income from The Scully Mine is exempt from income tax for a period of thirty-six months commencing April 1, 1966. For the year 1966, the effect of this exemption was to reduce the provision for income taxes by approximately \$3,000,000.

11. The total remuneration received as a director or officer by directors from the Company and its subsidiaries for the year ended December 31, 1966, was \$434,410.

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

for the year ended December 31, 1966 (with comparative figures for the year 1965)

	1966	1965
SOURCE OF FUNDS		
From operations:		
Net profit for the year	\$ 42,743,910	\$ 43,453,870
Non-cash charges for:		
— depreciation	29,499,952	27,593,809
— deferred income tax	27,074,000	34,953,000
	<u>\$ 99,317,862</u>	<u>\$106,000,679</u>
Net proceeds from sale of debentures	—	49,103,570
Sundry items (net)	1,029,188	1,330,458
	<u>\$100,347,050</u>	<u>\$156,434,707</u>
 USE OF FUNDS		
Expenditures for plants and mining properties	\$ 99,542,042	\$ 75,539,847
Reduction of long-term debt	18,754,000	2,716,750
Dividends and extra distribution declared	20,518,194	20,517,897
Special refundable tax	3,327,524	—
	<u>\$142,141,760</u>	<u>\$ 98,774,494</u>
 INCREASE (DECREASE) IN WORKING CAPITAL	\$(41,794,710)	\$ 57,660,213
Working capital at beginning of year	180,355,032	122,694,819
Working capital at end of year	<u>\$138,560,322</u>	<u>\$180,355,032</u>

AUDITORS' REPORT

To The Shareholders,
The Steel Company of Canada, Limited.

We have examined the accompanying consolidated financial statements of The Steel Company of Canada, Limited and its subsidiary companies for the year ended December 31, 1966 comprising the consolidated balance sheet at that date and the consolidated statements of income and retained earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the aforementioned statements present fairly the financial position of the companies at December 31, 1966 and the results of their operations and the source and use of funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
February 10, 1967.

RIDDELL, STEAD, GRAHAM & HUTCHISON
Chartered Accountants

TEN YEAR STATISTICAL SUMMARY

1966

OPERATIONS (thousands of net tons)

Raw steel produced	3,794
Steel processed ⁽²⁾	4,086

INCOME AND RELATED DATA (thousands of dollars)

Sales	504,763
Depreciation	29,500
Income taxes	33,051
Net profit	42,744
Per cent of sales	8.5
Per share ⁽³⁾	\$ 1.77
Dividends (including extra distributions)	20,518

CAPITAL EXPENDITURES (thousands of dollars)	99,542
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FINANCIAL POSITION, YEAR END (thousands of dollars)

Working capital	138,560
Plants and properties—net	464,313
Shareholders' equity	432,728

EMPLOYMENT

Average number of employees	20,360
Total employment costs (thousands of dollars)	151,708
Employees' average weekly earnings	\$130.98

NUMBER OF SHAREHOLDERS, YEAR END	53,017
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(1) 1958 operations interrupted by strike—86 days.

(2) Includes steel purchased and steel received from customers for conversion.

(3) Based on average number of shares outstanding each year and adjusted for subdivision of shares.

1965	1964	1963	1962	1961	1960	1959	1958 ⁽¹⁾	1957
3,846	3,479	3,110	2,779	2,445	2,152	2,438	1,668	2,178
4,137	3,884	3,122	2,768	2,428	2,336	2,687	1,686	2,241
16,406	477,823	370,989	332,205	288,356	281,967	321,544	225,179	274,850
27,594	26,003	24,081	22,631	18,922	17,433	18,804	17,376	19,667
38,808	33,791	31,680	26,350	22,287	17,278	28,824	15,294	17,125
43,454	43,630	37,095	30,299	27,378	21,356	32,878	16,371	21,158
8.4	9.1	10.0	9.1	9.5	7.6	10.2	7.3	7.7
1.80	\$ 1.91	\$ 1.82	\$ 1.50	\$ 1.43	\$ 1.23	\$ 1.89	\$.95	\$ 1.22
20,518	19,752	15,723	12,653	11,712	10,412	9,103	8,206	8,206
75,540	109,306	52,236	67,036	38,754	53,290	35,123	14,395	47,066
80,355	122,695	125,348	118,681	134,895	95,139	115,842	104,357	91,662
96,291	350,863	234,035	206,530	165,759	147,652	117,197	104,811	108,875
10,503	388,578	326,437	302,721	290,256	240,141	228,925	200,012	191,773
20,262	18,584	16,599	15,692	14,432	14,600	15,255	13,737	14,488
43,179	123,864	107,386	98,464	87,942	84,690	86,938	64,744	75,910
125.13	\$121.33	\$117.00	\$114.71	\$111.47	\$105.57	\$104.50	\$ 98.72	\$ 96.00
46,597	40,973	30,297	25,746	18,259	15,734	15,403	15,226	15,210

STELCO RESEARCH

The result of five years of planning, designing and construction, the new Stelco Research Centre, to be opened officially on June 8, 1967, is the first of its kind in Canada to be devoted to applied research in iron and steel manufacturing technology.

Stelco's Research and Development Department was formed in 1961. Up to that time, the Company's research activities had been closely associated with manufacturing operations, and although a number of important successes had been achieved — particularly in beneficiating processes for raw materials, in blast furnace productivity and in rolling and annealing practices — it was becoming apparent that, with the far-reaching changes taking place in the iron and steel industry, a more highly organized and sustained program of investigation

and research was desirable. For this reason, a corporate department was established and plans were initiated for the construction of applied research laboratories to permit the Company to take full advantage of the rewards that modern technology can bring.

At the outset, it was recognized that the location of the laboratories was important. The facilities needed to be sufficiently distant from the operating plants to ensure that day-to-day operating problems and pressures would not influence unduly the selection or direction of long-term studies and projects — “troubleshooting” and work on short-term improvement programs are not part of the Research Department's function. On the other hand, the laboratories were required to be close enough



The chemical composition of an extremely small particle, such as a single grain of steel or a minute inclusion, can be determined by means of this electron probe microanalyzer.

to the major operating plants to provide for continued regular contact with other departments. In this way, the research and development projects could be kept in harmony with the future needs of the Company.

A suitable property in Burlington, Ontario, which satisfied these requirements, was obtained. The site is within reasonable distance of Stelco's primary and secondary manufacturing operations in the Hamilton area, and the new building, situated on high ground, is in full view of two of Ontario's busy modern highways—Highway 403 and the Queen Elizabeth Way.

The Research Centre consists of two linked buildings. The first, which faces the highways, is a double-wing structure housing the various chemical

and metallurgical laboratories in one wing; and the meeting rooms, reference library, cafeteria, and offices in the other. The second building, which lies behind the first and has been built partly below ground level, contains a machine shop, a heat treatment room, and two fully-serviced high bays for the erection and operation of "pilot-scale" steelmaking and processing equipment. The total floor area of the buildings is approximately 60,000 square feet.

Many of the architectural features of the Research Centre are novel. The corridors of the laboratory wing run along the outside wall, giving clean lines to the external appearance of the building. Using centrally-located service ducts, this arrangement also permits convenient distribution



Any desired grade of steel, in quantities up to three tons, can be produced in the induction steelmaking furnaces.

of power, water, gas and compressed air to the various laboratory rooms, which are placed "back-to-back". Ventilation and the removal of chemical wastes are also facilitated by the design.

The structural support members of the front building extend beyond the outside wall and have been left unprotected, in the conventional sense, from atmospheric corrosion. "Stelcoloy" steel has been used for these supports. Exposure to the atmosphere over a period of time causes this proprietary grade of steel to form an insoluble, tightly adhering bluish-brown oxide layer which seals the metal surface, preventing continued corrosion. With this self-forming protective coloured surface, no exterior building maintenance will be necessary.

Steel has been featured extensively throughout the building. Most of the partitions for the laboratories and offices have been fabricated from painted steel panels. Porcelain-enamelled steel also appears in various forms. It has been used, for example, in

the reception area as the exterior panelling for the Centre's main conference room, and the "black-boards" used in the meeting rooms have been made from porcelain-enamelled steel. The attractively designed, yet functional, laboratory and office furniture is made from painted sheet steel.

The opening of the Research Centre with its many modern facilities will enable the Research and Development Department to expand greatly the scope of its activities. In the new Centre, the Department will direct all its efforts and resources toward the following goals:

- development of improved steel products, designed to meet competitive market requirements;
- development of practices to improve product yields and manufacturing processes;
- compilation of guidance data to assist management in the selection of raw materials,

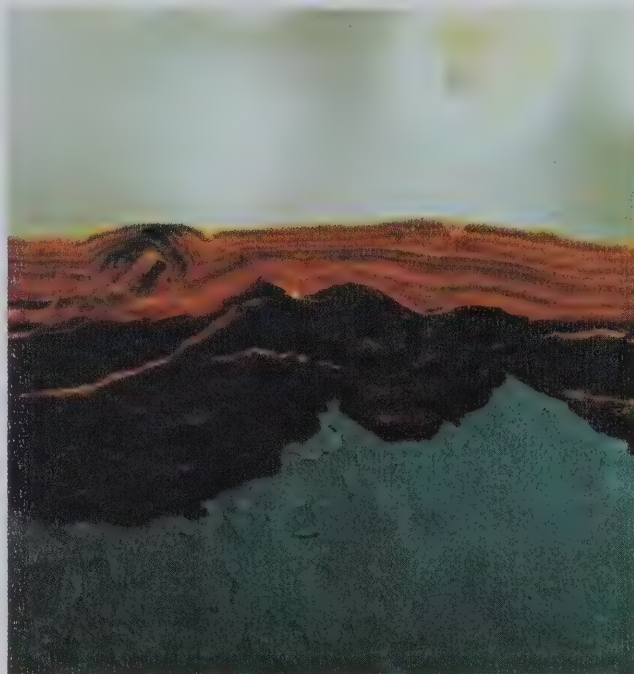
manufacturing equipment, and specialized quality control equipment;

- determination of methods to eliminate noxious effluents from Stelco's processes and to transform collected wastes into profitable by-products.

The Stelco Research Centre is an integrated steel mill in miniature. It has been created with sufficient flexibility to permit variations in processing techniques and product properties, and is equipped with the analytical tools necessary to evaluate the effects of these variations. The facilities available to the investigators range from technically sophisticated instruments, such as an electron probe micro-analyzer and quantitative television microscope (for analyzing the compositions and structures of ore, coal, coke and metallic samples), to semi-commercial size processing units (pilot plants). In this area are housed such units as induction steel-making furnaces, which can produce up to three tons of steel of any desired composition, and a cold-rolling mill capable of rolling six-inch wide strip at high speeds. With its advanced equipment and instrumentation, the Research Centre will enable Stelco's investigators to study the complete processing of experimental steels and determine, in scientific detail, their physical, chemical and mechanical properties.

The new technological resources provided at the Research Centre, combined with the constant efforts of all departments of the Company to bring about improvements in operations, should help to assure Stelco's continued presence in the front ranks of the steel industry as a leader in product quality and processing efficiency. The Centre will also serve as an example of the expanding and challenging opportunities in Canada for the application and development of scientific knowledge and talent.

"Stelcoloy" steel, when exposed to the atmosphere, forms a protective layer which prevents continued corrosion. This micro-photograph shows the stratified oxides which form the protective layer, magnified 500 times.



Many of the physical properties of steel samples are accurately measured on this universal testing machine.



OFFICES AND PLANTS

HEAD OFFICE

Hamilton, Ontario, Canada

GENERAL OFFICES

Hamilton, Ontario, Wilcox Street
Montreal, Quebec, 525 Dominion Street

SALES OFFICES

Hamilton, Ontario
Montreal, Quebec
Calgary, Alberta
Edmonton, Alberta
Halifax, Nova Scotia
London, Ontario
London, England
Quebec, Quebec
Regina, Saskatchewan
Saint John, New Brunswick
St. John's, Newfoundland
Toronto, Ontario
Vancouver, British Columbia
Windsor, Ontario
Winnipeg, Manitoba

PLANTS

ONTARIO

Hamilton - Hilton Works
- Ontario Works
- Canada Works
- Parkdale Works
- Frost Works
- The Canadian Drawn Steel Company, Limited

Brantford - Brantford Works
Toronto - Swansea Works
Gananoque - Gananoque Works
Welland - Page-Hersey Works
- Welland Tube Works
Ingersoll - Chemical Lime Works

QUEBEC

Montreal - St. Henry Works
- Notre Dame Works
Lachine - Dominion Works
Contrecoeur - McMaster Works

SASKATCHEWAN

Regina - Saskatchewan Steel Fabricators Ltd.

ALBERTA

Edmonton - Premier Works
Camrose - Camrose Works

SUBSIDIARIES, JOINT VENTURES AND ASSOCIATED COMPANIES

SUBSIDIARY COMPANIES — WHOLLY OWNED

(Consolidated in Financial Statements)

Page-Hersey Tubes, Limited, Welland, Ont.
Welland Tubes Limited, Welland, Ont.
Camrose Tubes Limited, Camrose, Alta.
Premier Steel Mills Ltd., Edmonton, Alta.
Saskatchewan Steel Fabricators Ltd., Regina, Sask.
The Canadian Drawn Steel Company, Limited, Hamilton, Ont.
Frost Steel and Wire Company, Limited, Hamilton, Ont.
Frost Steel and Wire Company Quebec, Limited, Montreal, Que.
Chemical Lime Limited, Ingersoll, Ont.
Stelco Coal Company, Pittsburgh, Pa.
Pikeville Coal Co., Louisville, Ky.
Stelco Nederland N.V., Holland
Stelco S.A., Switzerland

JOINT VENTURES

(Ownership interest consolidated in Financial Statements)

	% Owned
The Hilton Mines, Que.	50.0
The Scully Mine, Nfld.	23.5
Arnaud Pellets, Que.	25.5
Ontario Coal Property, Pa.	33.3

ASSOCIATED COMPANIES

(Included in Investments In Associated Companies in Financial Statements)

	% Owned
Baycoat Limited, Ont.	50.0
Arnaud Railway Company, Que.	23.5
Knoll Lake Minerals Limited, Nfld.	13.6
Wabush Lake Railway Company, Limited, Nfld.	23.5
Northern Airport Limited, Nfld.	11.8
Northern Land Company Limited, Nfld.	11.8
Twin Falls Power Corporation, Limited, Nfld.	5.1
The Balkan Mining Company, Minn.	33.3
Erie Mining Company, Minn.	10.0
Ontario Iron Company, Minn.	10.0
Western Mining Company, Minn.	50.0
Mathies Coal Company, Pa.	13.3
Olga Coal Company, W. Va.	10.0



PRINCIPAL PRODUCTS

PLATE

Up to 140" in width.

HOT ROLLED AND COLD ROLLED SHEET

In sheets, coils or strip.

GALVANIZED SHEET

Standard or "Colourbond", in sheets, coils or strip.

PREPAINTED SHEET

"Stelcolour", prefinished in colours, patterns, and simulated textures.

TIN PLATE

Electrolytic, hot dip, and black, in sheets and coils.

WIRE RODS

HOT ROLLED AND COLD FINISHED BARS

Alloy, carbon, leaded; in standard and special sections.

CONSTRUCTION MATERIALS

Reinforcing bars, welded wire fabric, prestressed concrete wire and strand.

FASTENERS AND FORGINGS

Bolt and screw products, standard and special, track fasteners and pole line hardware. Standard and custom forgings in light and medium weights.

PIPE AND TUBING

Stretch-reduced continuousweld steel pipe, electric-resistance weld steel pipe, electric-fusion weld steel pipe, electricweld mechanical and pressure steel tubing, hollow structural sections, oil country tubular products, piling pipe, waterworks pipe, seamless steel pipe and tubing—hot finished or cold drawn, nipples and couplings.

MANUFACTURERS' WIRE

Wire and strand, in a full range of sizes, grades, finishes, coil weights and cut lengths.

MERCHANT WIRE PRODUCTS

Nails, fencing and barbed wire.

FENCE

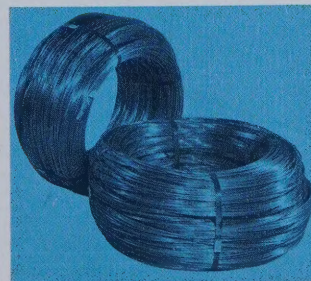
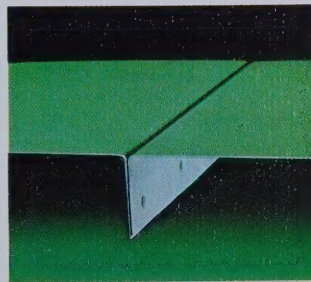
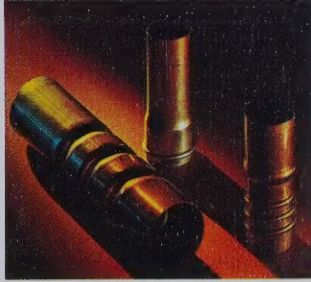
Industrial, institutional and residential.

SPECIAL PRODUCTS

Grinding balls, grinding rods, sucker rods, and grader blades.

CHEMICALS, ETC.

Coal tar, light oil, ammonium sulphate, lime and limestone.





THE CENTENNIAL AND THE COMPANY



Stelco, a Canadian-built and Canadian-owned company, is proud of its contribution to the country's economic and social development and, at the same time, is grateful for its share of the fruits of that development. Formed fifty-seven years ago out of a farsighted grouping of small Canadian businesses, its early beginnings were already in existence at the time of Confederation.

Stelco's principal Centennial project is participation in the Steel Pavilion at Expo 67, referred to elsewhere in this Report. The Company also is supporting a number of regional projects in communities where it carries on operations. In addition, a

Stelco sound film in colour is being produced. This film, designed to illustrate the making of steel as well as many of the important uses of steel, will be released in the spring and will be made available, at no charge, to educational and service organizations and for showing on television.

Canada is still a young country, with a future that must surpass all that has gone before. By the same token Stelco, too, is young, and in growing with Canada will help to provide a better life for Canadians through the medium of steel, that most useful of metals from which so much of man's progress is being shaped.

GLOSSARY OF STEELMAKING TERMS

Copies of the Company's Glossary of Steelmaking Terms, which was forwarded to shareholders with last year's Annual Report, are still available. While they last, they may be obtained on request from: The Secretary, The Steel Company of Canada, Limited, Wilcox Street, Hamilton, Ontario.

